



IEEJ e-NEWSLETTER

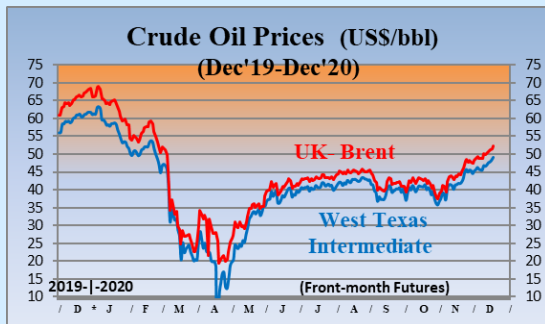
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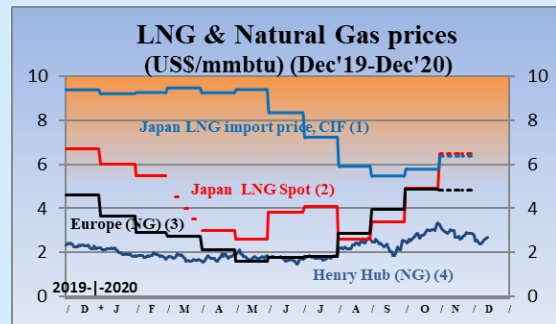
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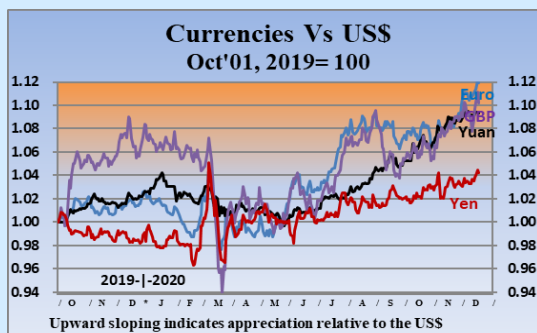
(As of December 18, 2020)



Sources:
(1) DOE-EIA
(2) Investing.com

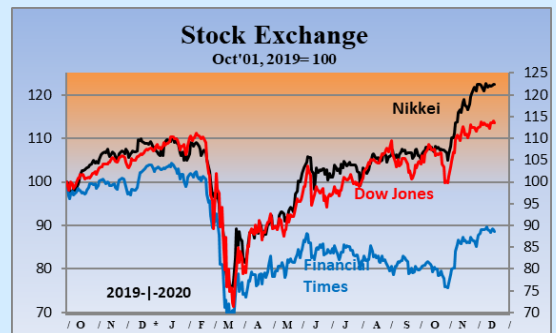


Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) Ministry of Economy, Trade and Industry (arrival month basis)
(3) Estimated by World Bank (Netherlands Title Transfer Facility)
(4) DOE-EIA, NYMEX (Front-month Futures)



Upward sloping indicates appreciation relative to the US\$

Source: x-rates.com



Sources:
(1) Finance. Yahoo.com
(2) Investing.com

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Summary

【Global Monitoring】

1. US: Climate-focused Biden Administration to Take Office

The administration is expected to highlight climate action as its key policy. It is not clear how effective it will be, but it will open up possibilities for cooperation in various areas between the US and Japan, which share the same policy direction.

2. EU: European Commission Adopts a New Methane Reduction Strategy

The European Commission adopted a new strategy to reduce methane emissions, which is a major global-warming gas. The strategy deserves attention as it may affect the actions of natural gas developers and energy companies worldwide.

3. China: Creation of a Medium- to Long-Term Plan towards Net-Zero Carbon Emissions

The Central Committee of the Communist Party set the medium- and long-term basic policy for reaching net-zero emissions. The Development Plan for the NEV Industry up to 2035 has been released; attention is now turning to the upcoming climate change prevention plan and energy plan.

4. ME: Saudi Arabia and Israel Drawing Closer

As a warning to the incoming Biden administration, which clearly intends to return to the Iran nuclear deal, Saudi Arabia and Israel have taken a step forward toward normalizing diplomatic ties, with the common goal of maintaining the anti-Iran containment.

5. Russia: Hydrogen, the Arctic, Climate Action, and the Threat of Additional Sanctions

The Russian government approved policy documents regarding the action plan for hydrogen energy development, the Arctic development strategy, and the GHG reduction target. In the US, Congress has started deliberating a bill for additional sanctions against Russia.



1. US: Climate-focused Biden Administration to Take Office

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On November 8, the Democratic presidential nominee Joe Biden declared that he had won the November 3 presidential election by gaining a majority of the electoral votes. Incumbent President Trump has yet to acknowledge defeat, but Mr. Biden is certain to be inaugurated as the next president.

Fighting the expanding Covid-19 pandemic and restoring the affected economy are the greatest challenges for the incoming Biden administration. The administration is also expected to highlight climate action as its key policy. Mr. Biden revealed his plans to return the United States to the Paris Agreement, the global framework for climate action, on his first day in office, and is expected to promptly reintroduce various environmental regulations (on fuel economy, methane emissions from oil and gas fields, pollutants from power stations, and so on) that the Trump administration has eased by issuing executive orders. Also, to ramp up climate actions by the federal government as a whole, the new administration is expected to require all federal departments including the State Department and the Department of Defense to set their own climate actions, alongside those already directly involved such as the Environmental Protection Agency and the Department of Energy.

However, such moves are purely within the country's executive branch; in practice, the legislative branch also has a significant impact on the policy trends of the country. While two seats still remain open, the Republicans have already won 50 seats, or half, of the Senate. The Democrats maintained their majority in the House but have fewer seats than before the election, narrowing the gap in the number of seats between the two parties. As a result, the new administration will need to run the government while seeking Republican support, making it difficult to implement drastic changes in policy involving new legislation and budgeting, especially as the country is more divided than ever. Likewise, the ban on hydraulic fracking, which was a sticking point in the election, is likely to be limited only to federal lands. Since economic recovery is a top priority, the government must be cautious about restricting shale resources development, which has helped the US economy to flourish. Thus, the Biden administration's climate actions are unlikely to have a major immediate impact on the domestic energy situation in the US. However, President Biden's declaration to return the US to the Paris Agreement on his first day in office will add momentum to the global fight against climate change, boosting the influence of climate actions on the decisions of governments and companies under a global code of conduct.

In Japan, Prime Minister Suga announced in October the target of reaching carbon neutrality by 2050. Japan's policy is in sync with the new US administration regarding this point, opening up possibilities for cooperation in many areas. As the whole world starts taking climate actions, more specific international rules will need to be established for individual reduction technologies and for measuring the amounts of reduction. When that happens, Japan should become closely involved in formulating neutral and effective rules while cooperating with the US, among others. Mr. Biden has set a goal of reaching carbon-neutrality in the US electricity sector by 2035, paving the way for various related possibilities for cooperation in the nuclear and CCS areas. Further, in October this year, a memorandum of cooperation was signed between the two governments concerning carbon recycling, in which CO₂ is collected and reused as a resource. It is hoped that cooperation will deepen in this area as well.



2. EU: European Commission Adopts a New Methane Reduction Strategy

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On October 14, the European Commission adopted a new strategy to reduce methane emissions. Methane is a global-warming gas second only to carbon dioxide in the amount of emissions. The new strategy focuses on reducing methane emissions to achieve the 2030 GHG reduction target and net-zero emissions by 2050. According to the EU, agriculture accounts for 53% of methane emissions, waste for 26%, and energy for 19%. The amount of energy-related methane is insignificant compared with the total amount, and it is considered easier and less costly to reduce such emissions compared to that from other sectors.

One notable feature of the EU strategy is that it aims to reduce methane in collaboration with the international community, as well as working on its own. Europe is an importer of natural gas and LNG, and the strategy covers reducing methane during production and transportation of those energies as well. Specifically, it aims to set standard procedures for measuring methane emissions and reporting and verifying those measurements, not only for the EU but also at the international level. This endeavor must be closely watched as it could restrain the development and utilization of natural gas in the world.

The strategy may also affect corporate activities. The week after the methane strategy was adopted, the media reported an unprecedented move by the French government: it stopped the French major electricity and gas company, Engie, from signing a new contract for importing LNG from the US, citing a high methane emission intensity. To the author's knowledge, this is the first time a business deal has been stopped for such a reason. The important point is the relationship between the French government and Engie. Engie was originally a state-run enterprise and the government still owns golden shares in the company, allowing the French government to exercise a veto over important decisions on matters of national interest. This decision may have been taken because of the special relationship between the French government and Engie, but it is also possible that methane emission intensity may become a new benchmark for regulating or restricting the actions of energy companies.

Meanwhile, the EU needs to balance its methane emission reduction strategy with the supply security of natural gas. According to BP's statistics, the EU's self-sufficiency in natural gas was 21% in 2019, with imports from Russia accounting for some 44% of the total. Although Europe is trying to shift to a renewables-centered energy structure, the demand for natural gas will not fall so readily. There is strong demand particularly for heating; it is worth remembering that Russia cut its supply of natural gas through Ukraine in midwinter, causing an uproar. According to the World Bank's Global Gas Flaring Reduction Partnership, Russia is the world's number one in terms of flaring, or burning off associated natural gas produced with crude oil, meaning that Russian natural gas is producing large amounts of methane in the production stage. However, the problem is complex, as applying the methane strategy strictly would make it difficult to import Russian gas, which would be unacceptable for the natural gas security of Europe.



3. China: Creation of Medium- to Long-Term Plan towards Net-Zero Carbon Emissions

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At the UN General Assembly held on September 22, China announced a new global warming prevention target to reach peak CO₂ emissions before 2030 and achieve net-zero emissions before 2060 as a voluntary promise to the international community. Subsequently, the Central Committee of the Communist Party and the government set about formulating relevant domestic plans to ensure that the promise would be achieved. Here are the key points regarding this effort.

The Fifth Plenary Session of the 19th CPC (Communist Party of China) Central Committee was held from October 26 through 29 in Beijing, and the Proposal on Formulating the Fourteenth Five-year Plan and the Long-Term Target for 2035 was adopted. While “proposal” usually denotes a suggestion or opinion, the proposal by the CPC Central Committee is understood as a “supreme order” that must be obeyed. As the basic policy for climate actions up to 2035, the Proposal mentions accelerating green, low-carbon development and pursuing the clean, low-carbon, safe, and highly efficient use of energy. It also stipulates that the government will reduce its CO₂ emissions per unit GDP (emission intensity), support regional governments to reach peak emissions as soon as possible based on region-specific conditions, and formulate a national action plan for reaching peak carbon emissions before 2030. As policy measures, the Proposal specifically refers to fully deploying carbon emission credit trading and developing the renewable energy industry and the new energy vehicle industry (NEVs, including EVs, fuel cell vehicles and plug-in hybrids). As a long-term target for 2035, accelerating the reduction of carbon emissions is stipulated. The relevant ministries must now develop feasible and detailed government plans based on these stipulations in the Proposal.

Conventionally, the National Development and Reform Commission (NDRC) assumed sole control over energy administration and climate change prevention, formulated both the energy plan and climate change prevention plan consistently, and was responsible for achieving the planned targets. Under the centralized control of the NDRC, which has so much authority that it is nicknamed the “little State Council,” China’s emission intensity decreased by 48.1% from 2005 levels in 2019, surpassing its 2020 voluntary action target and international promise of 40–45% ahead of schedule. Meanwhile, control over global warming prevention was transferred from the NDRC to the Ministry of Ecology and Environment (MEE) in the 2018 administrative reform. As a result, energy administration was assigned to the NDRC and global warming prevention to MEE. Under this new allocation of responsibility, it will be interesting to see how the global warming prevention plan can be formulated consistently with the energy plan, which must ensure that the new target will be achieved.

On November 2, the Development Plan for the NEV Industry 2021-2035, created under the initiative of the Ministry of Industry and Information Technology (MIIT), was issued. The Plan describes the development of the NEV industry, spanning from the manufacturing of parts and finished cars to the establishment of charger and hydrogen supply infrastructure, as the route that China must take to transform from just one of major car manufacturing countries into a car manufacturing powerhouse as well as strategic measures indispensable for preventing global warming. The Plan sets the goals of raising the percentage of NEVs in all new car sales to 20% by 2025, making EVs the mainstay of new vehicle sales, electrifying all vehicles in the public sector, and commercially implementing fuel cell vehicles by 2035. The Plan does not specify the target share of NEVs in new car sales in 2035, but the Technology Roadmap 2.0 for Energy-saving and New Energy Vehicles, commissioned by the MIIT and created and issued by the China Society of Automotive Engineers on October 27, sets a target share of at least 50% for NEVs, with all the rest being hybrids (HVs). Further targets include reaching peak auto industry-related CO₂ emissions by 2028 and reducing them by 20% from peak levels by 2035.



4. ME: Saudi Arabia and Israel Drawing Closer

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On November 21 and 22, the G20 Summit was held online in Riyadh, the capital of Saudi Arabia. The G20 Riyadh Leaders Declaration, which stresses the determination to “build a more environmentally sustainable and inclusive future for all people as we recover from the pandemic,” was adopted at the closing of the Summit. The Declaration expresses support for the Circular Carbon Economy and its 4Rs, namely reducing, reusing, recycling and removing emissions, advocated by Saudi Arabia.

On the same day, November 22, Prime Minister Netanyahu of Israel and Crown Prince Muhammad bin Salman of Saudi Arabia reportedly held talks in NEOM, a futuristic city that Saudi Arabia is building on the coast of the Red Sea. The meeting was reportedly joined by US State Secretary Pompeo who had visited Israel and then Saudi Arabia immediately before the meeting, causing many to assume that Israel is likely to normalize its diplomatic relations with Saudi Arabia, as did the UAE, Bahrain, and Sudan.

The reactions of Middle Eastern countries to Joe Biden’s victory in the US presidential election are divided. Iran has expressed relief, as Mr. Biden has been clear about returning the US to the Iran nuclear deal if he wins the election. On the other hand, Israel and Saudi Arabia, who have been working closely with the Trump administration to contain Iran, are wary about possible changes in US policy towards Iran under the Biden administration.

Nevertheless, it is not clear how the Biden administration will return to the Iran nuclear deal. Iran has already stopped complying with the deal, and both the US and Iran are demanding that the other party return to it (that is, start implementing the deal) as the condition for their return. Furthermore, many of the various sanctions imposed by the Trump administration under the “maximum pressure” policy will not be lifted simply because the US returns to the deal. For example, sanctions connected to non-nuclear-related factors including Iran’s missile development and activities within the region might remain.

Furthermore, Israel and Saudi Arabia, who have opposed the Iran nuclear deal established under the Obama administration from the very beginning, have declared that they do not support the Biden administration returning to the existing nuclear deal. Israel has pointed out that the deal refers neither to Iran’s missile development nor to its actions that destabilize the region, while Saudi Arabia has claimed that it should be included in the negotiations with Iran toward reaching a new nuclear deal.

As such, neither the Biden administration’s return to the deal nor the complete lifting of the sanctions on Iran thereafter seems easy. The competition between Iran, whose already-battered economy was hit hard by Covid-19 and which desperately needs to have the sanctions lifted, and Israel and Saudi Arabia, which are determined to block the lifting of the sanctions on Iran (and the country regaining strength), is likely to continue for the time being.



5. Russia: Hydrogen, the Arctic, Climate Action, and the Threat of Additional Sanctions

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The Russian government approved three policy documents closely related to the country's energy policies. On October 12, Prime Minister Mishustin signed a government order concerning the roadmap for hydrogen energy development in the Russian Federation up to 2024, prescribing the measures and legal systems necessary to support the development of hydrogen energy, and the timeframe and agency responsible for creating a research platform. According to the roadmap, the Concept for Hydrogen Energy Development in Russia will be formulated by 2021, and a project office and an inter-ministerial working group will be set up to support pilot projects and to promote both the export of hydrogen energy and its domestic use. The roadmap aims to run multiple pilot projects by 2024, with possible areas including gas turbines that can use methane and hydrogen energy as fuel, hydrogen-fueled trains, a zero-carbon hydrogen generation process, low-carbon hydrogen generation in hydrocarbon refining or natural gas production facilities, and hydrogen generation in nuclear power plants. Efforts will also be made to register innovative hydrogen energy technologies; to promote research on the generation, transportation, and storage of hydrogen energy; to develop hydrogen energy regulations; and to develop human resources. Former Energy Minister Novak (presently Deputy Prime Minister of Russia in charge of energy) has said that "hydrogen may become a driver of Russia's energy in the future."

On October 26, an executive order was signed to approve the Strategy for Developing Russia's Arctic Zone and Ensuring National Security until 2035. The executive order points out that the warming of the Arctic will present both opportunities and risks for Russia's economy and environment. The Strategy indicates measures for developing society, the economy, and infrastructure in the region and the expected results, and outlines efforts in three phases (2020-2024, 2025-2030, 2031-2035). In the energy area, the goal is to boost the share of the Russian Arctic in Russia's total oil and condensate production from 17.3% in 2018 to 26% in 2035 and LNG output in the Russian Arctic from 8.6 million tonnes in 2018 to 91 million tonnes in 2035. The Strategy also states that the total amount transported via the Arctic Ocean will be increased to 130 million tonnes in 2035, with LNG accounting for most of it.

On November 4, an executive order regarding the reduction of greenhouse gas emissions was signed. The order requires Russia to work toward fulfilling the Paris Agreement, which the country ratified in September 2019, by cutting GHG emissions by 30% from 1990 levels in 2030. To achieve this reduction, the ability of forests and other ecosystems to absorb emissions will be utilized to the maximum extent.

In the US, meanwhile, Congress is moving to impose additional sanctions on the Nord Stream 2 project, which supplies Russian gas to Germany via the Baltic Sea. Members of both houses of Congress have agreed to incorporate and deliberate a new bill into the bill for Protecting Europe's Energy Security Act (PEESA) which is due to be approved by the end of December 2020. The new bill adds insurance companies and technical certification companies related to the project to the scope of sanctions. According to industry sources, the Danish government is asking third-party certification company Det Norske Veritas (DNV) to issue a compliance certificate before Nord Stream 2 goes into operation, but DNV may decline to become involved in the project due to concerns over the sanctions. Developments in this project must continue to be watched.



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